

# FIRST ACCEPTANCE CORPORATION



3813 Green Hills Village Drive

Nashville, TN 37215

Telephone: (615) 844-2800

## QUARTERLY REPORT

FOR THE QUARTER ENDED MARCH 31, 2025

### ISSUER'S EQUITY SECURITIES

Common Stock

Par Value \$.01 per share

75,000,000 Shares Authorized

36,771,379 Shares Outstanding at March 31, 2025

**First Acceptance Corporation is responsible for the content of this Quarterly Report. The securities described in this document are not registered with, and the information contained in this report has not been filed with, or approved by, the U.S. Securities and Exchange Commission.**

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
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This report reviews the financial condition and results of operations of First Acceptance Corporation. The information in this report updates the Annual Information and Disclosure Statement and Annual Report for the year ended December 31, 2024, previously filed by the Company with the OTCQX. Accordingly, this report should therefore be reviewed in conjunction with these year-end reports and any other interim reports or updates since provided.

### **Forward-Looking Statements**

This report contains forward-looking statements. All statements made in this report, other than statements of historical fact, are forward-looking statements. You can identify these statements from our use of the words “may,” “should,” “could,” “potential,” “continue,” “plan,” “forecast,” “estimate,” “project,” “believe,” “intent,” “anticipate,” “expect,” “target,” “is likely,” “will,” or the negative of these terms and similar expressions. These forward-looking statements may include, among other things, statements and assumptions relating to:

- the accuracy and adequacy of our loss reserving methodologies;
- income, income per share, and other financial performance measures;
- the anticipated effects on our results of operations or financial condition from recent and expected developments or events;
- the financial condition of, and other issues relating to the strength of and liquidity available to, issuers of securities held in our investment portfolio;
- and our business and growth strategies.

We believe that our expectations are based on reasonable assumptions. However, these forward-looking statements involve known and unknown risks, uncertainties, and other important factors that could cause our actual results, performance or achievements, or industry results to differ materially from our expectations of future results, performance or achievements expressed or implied by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. We discuss these and other uncertainties in “Risk Factors” of our Annual Report for the year ended December 31, 2024, filed by the Company with the OTCQX.

You should not place undue reliance on any forward-looking statements. These statements speak only as of the date of this report. Except as otherwise required by applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this report, whether as a result of new information, future events, changed circumstances, or any other reason after the date of this report.

**Item 1. Exact Name of the Issuer and Address and Telephone Number of Issuer's Principal Office**

Name of the Company or Issuer:  
First Acceptance Corporation

Address of Principal Office:  
3813 Green Hills Village Drive  
Nashville, TN 37215  
Telephone: 615-844-2800  
Web: www.firstacceptance.com

**Item 2. Shares Outstanding**

	<u>Common shares</u>	<u>3/31/2025</u>	<u>12/31/2024</u>
Authorized:		75,000,000 shares	75,000,000 shares
Outstanding:		36,771,379 shares	38,191,217 shares
Freely Tradable (public float):		9,780,957 shares	10,410,461 shares
Number of beneficial holders owning at least 100 shares:		approx. 1,100 holders	approx. 1,100 holders
Number of registered holders:		230 holders	226 holders
	<u>Preferred shares</u>		
Authorized:		10,000,000 shares	10,000,000 shares
Outstanding:		0 shares	0 shares
Freely Tradable (public float):		0 shares	0 shares
Number of record holders:		0 holders	0 holders

**Item 3. Interim Consolidated Financial Statements**

The interim consolidated financial statements of First Acceptance Corporation as of March 31, 2025, are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report, including:

- (1) Consolidated Balance Sheets;
- (2) Consolidated Statements of Income;
- (3) Consolidated Statements of Stockholders' Equity;
- (4) Consolidated Statements of Cash Flows; and
- (5) Notes to Consolidated Financial Statements

**Item 4. Management's Discussion and Analysis of Financial Condition and Consolidated Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed in "Risk Factors" in our Annual Report for the year ended December 31, 2024, filed by the Company with OTCQX. The following discussion should be read in conjunction with our consolidated financial statements included with this report and our consolidated financial statements and related Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2024 included in our Annual Report for the year ended December 31, 2024 filed by the Company with the OTCQX.

## **General**

First Acceptance is an insurance company headquartered in Nashville, Tennessee. We offer non-standard personal automobile insurance through our own underwritten insurance policies solely through independent agents in 15 states, and we are also licensed to write insurance in 11 other states that are not currently utilized. Non-standard personal automobile insurance is sought after by individuals because of their inability or unwillingness to obtain standard insurance coverage due to various factors including their payment preference, failure to have maintained continuous insurance coverage, or their driving record. We also sell an insurance product for renters that we underwrite.

For the three months ended March 31, 2025, two single independent agent groups produced 48% and 36% of premiums earned, respectively, and as of March 31, 2025, comprised 54% and 28% of policies in-force, respectively. At March 31, 2025, we also had approximately 650 other active independent agents who represent the balance of the Company's business.

The Company's largest independent agent operates primarily from retail locations, including the ones that it purchased from the Company in December 2023. The second largest agent utilizes a technology-driven method of distribution.

## **Current Underwriting Outlook**

On April 3, 2025, the United States implemented a 25% tariff on all imported vehicles, and on May 3, 2025, this tariff was also applied to imported auto parts. Tariffs of at least 10% have also been applied to most imported production inputs for domestically manufactured parts. Additionally, retaliatory actions that have impacted the supply of rare earth elements seem to be further increasing the costs of some vehicle components. Since the administration has delayed or modified some of the various tariffs it has enacted over recent weeks, much uncertainty remains as to the final status of those related to vehicles and auto parts.

However, while the ultimate impact of these tariffs and possible supply-chain disruption remains unknown, the automobile insurance industry is bracing for possible increased physical damage loss severities resulting from higher prices for foreign-built vehicles, as well as domestic-built vehicles using parts manufactured in other countries. The Company believes that the increased loss severity it experienced during the first quarter of 2025 was largely attributable to price increases in anticipation of these tariffs and the market uncertainty surrounding these actions. It is still uncertain to what extent the final application of the currently discussed tariffs will add further to these inflationary trends. Continued increased costs of vehicles and auto parts may lead to the Company seeking to offset increased loss severities by modifying its underwriting standards and through additional premium rate increases which will require regulatory approval. The Company has already begun to prepare filings for the actions that will require regulatory approval.

## **Consolidated Results of Operations**

### ***Overview***

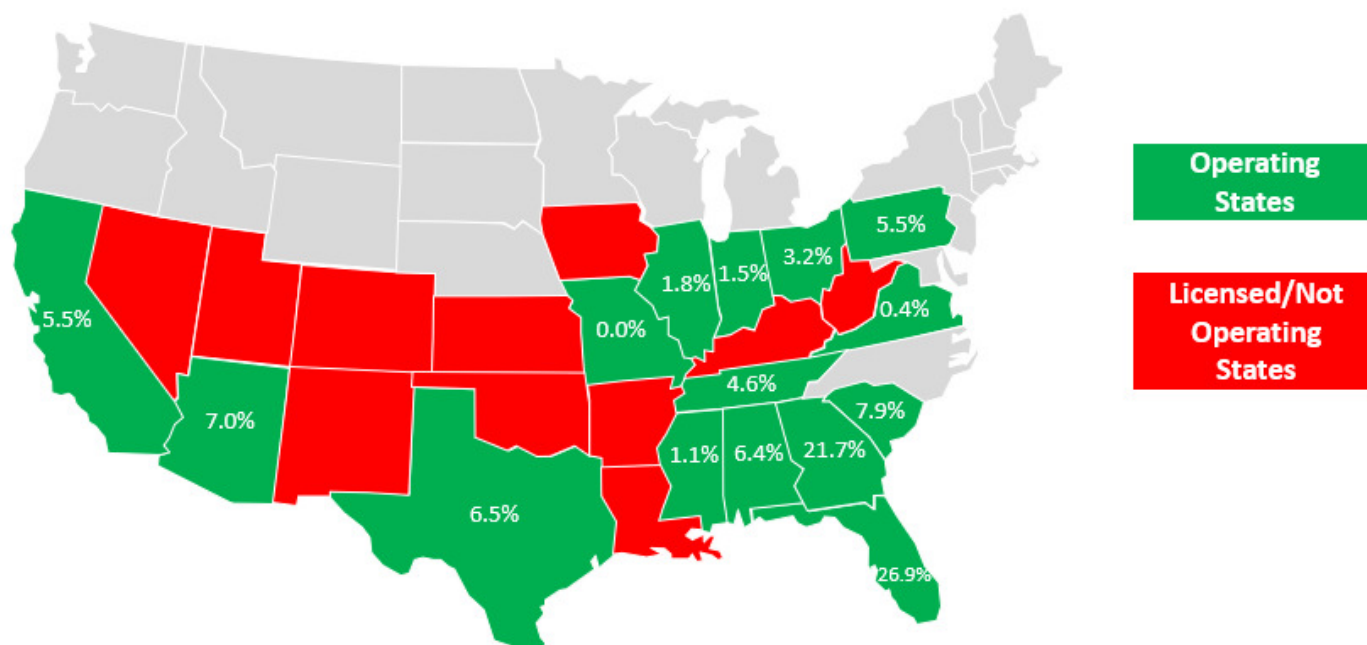
Our insurance operations generated revenues from selling non-standard personal automobile insurance policies. We currently conduct our underwriting operations in 15 states through three insurance company subsidiaries: First Acceptance Insurance Company, Inc., First Acceptance Insurance Company of Georgia, Inc., and First Acceptance Insurance Company of Tennessee, Inc. Our revenues were primarily generated from:

- premiums earned, including policy and renewal fees and managing general agency fees from sales of policies written and assumed by our insurance company subsidiaries;
- billing fees and service charges on policies written and assumed by our insurance company subsidiaries; and
- investment income earned on the invested assets of the insurance company subsidiaries.

The following tables present premiums earned by state (in thousands). Premiums earned are presented in the state in which the underlying insured risk of the related insurance policy is located.

	Three Months Ended March 31,	
	2025	2024
Georgia	\$ 34,952	\$ 39,040
Florida	32,226	34,915
South Carolina	12,297	9,617
Texas	8,559	4,187
Arizona	8,413	5,449
Alabama	8,023	8,544
Pennsylvania	7,498	5,364
California	6,143	5,602
Tennessee	5,489	6,582
Ohio	3,932	4,862
Illinois	3,250	2,030
Indiana	2,040	2,505
Mississippi	1,258	1,699
Virginia	734	128
Missouri	21	26
	\$ 134,835	\$ 130,550
Premiums ceded	(23,296)	—
	\$ 111,539	\$ 130,550

The following map presents the percentage of net premiums earned by state for the three months ended March 31, 2025:



Our insurance companies present a combined ratio as a measure of their overall underwriting profitability. The components of the combined ratio are as follows:

*Loss Ratio* - Loss ratio is the ratio (expressed as a percentage) of losses and loss adjustment expenses (“LAE”) incurred to premiums earned and is a basic element of underwriting profitability. We calculate this ratio based on all direct and assumed premiums earned, net of ceded reinsurance.

*Expense Ratio* - Expense ratio is the ratio (expressed as a percentage) of insurance operating expenses (including depreciation and amortization) to net premiums earned. Insurance operating expenses are reduced by billing fees and service charges from insureds and ceding commission income from ceded reinsurance. This is a measurement that illustrates relative management efficiency in administering our insurance companies.

*Combined Ratio* - Combined ratio is the sum of the loss ratio and the expense ratio. If the combined ratio is at or above 100%, an insurance company cannot be profitable without sufficient investment income.

The following table presents the loss, expense, and combined ratios for our insurance companies:

	Three Months Ended March 31,	
	2025	2024
Loss	78.9%	70.0%
Expense	20.9%	26.2%
Combined	99.8%	96.2%

### ***Three Months Ended March 31, 2025 Compared with the Three Months Ended March 31, 2024***

#### ***Consolidated Results***

Revenues for the three months ended March 31, 2025, decreased 14% to \$125.1 million from \$145.3 million in the same period in the prior year. Revenues for the three months ended March 31, 2025 were reduced by ceded premiums earned of \$23.3 million from the new reinsurance contract that was effective July 1, 2024.

Income before taxes for the three months ended March 31, 2025 was \$3.8 million compared with \$8.9 million for the three months ended March 31, 2024. Net income for the three months ended March 31, 2025 was \$2.9 million, compared with \$6.9 million for the three months ended March 31, 2024. Diluted net income per share was \$0.08 for the three months ended March 31, 2025 compared with \$0.18 for the same period in the prior year.

#### ***Premiums Earned***

After reinsurance, net premiums earned decreased by \$19.1 million, or 15%, to \$111.5 million for the three months ended March 31, 2025, from \$130.6 million for the three months ended March 31, 2024. Before reinsurance, direct and assumed premiums earned increased by \$4.3 million or 3.3%, to \$134.8 million for the three months ended March 31, 2025 from \$130.6 million for the three months ended March 31, 2024.

This increase was driven primarily by an increase in policies in-force compared to the prior year.

#### ***Billing Fees, Service Charges and Managing General Agency Fees***

Billing fees, service charges and managing general agency fees decreased by \$0.8 million, or 8%, to \$9.1 million for the three months ended March 31, 2025, from \$9.9 million for the three months ended March 31, 2024.

#### ***Investment Income***

Investment income increased by \$0.3 million, or 7%, to \$4.6 million for the three months ended March 31, 2025 from \$4.3 million for the three months ended March 31, 2024. This increase was primarily the result of higher returns from fixed maturities and short-term cash.

At March 31, 2025 and 2024, the tax-equivalent book yields for our managed fixed maturities and cash equivalents portfolio were 4.2% and 4.0%, respectively, with effective durations of 2.75 and 2.53 years, respectively. Yield has increased as the Company has taken advantage of the increase in interest rates by investing previously uninvested cash and reinvesting portfolio maturities at higher interest rates.

#### ***Loss and Loss Adjustment Expenses***

The loss ratio was 78.9% for the three months ended March 31, 2025 compared with 70.0% for the three months ended March 31, 2024.

We experienced unfavorable development related to prior periods of \$0.2 million for the three months ended March 31, 2025 compared to \$3.9 million for the three months ended March 31, 2024. The unfavorable development for the three months ended March 31, 2024 was primarily attributable to higher than expected loss severity on bodily injury losses in the third and fourth quarters of the 2023 accident year.

Excluding the development related to prior periods, the loss ratio for the three months ended March 31, 2025 was 78.7% as compared with 67.1% for the three months ended March 31, 2024. The higher loss ratio for the current period was primarily attributable to increased severity on physical damage losses. The Company believes that this increased loss severity was largely attributable to price increases in anticipation of tariffs on imported auto and auto parts and the market uncertainty surrounding these actions.

#### ***Insurance Operating Expenses***

Insurance operating expenses decreased 27% to \$31.6 million for the three months ended March 31, 2025 from \$43.0 for the three months ended March 31, 2024. Insurance operating expenses for the three months ended March 31, 2025 are net of ceding

commission income from the new reinsurance contract that was effective July 1, 2024 and from favorable contingent commission adjustments to an independent agent based on their incurred loss and loss adjustment expense ratio.

The insurance companies' expense ratio was 20.9% for the three months ended March 31, 2025, compared with 26.2% for the three months ended March 31, 2024.

#### *Provision for Income Taxes*

Income tax expense was \$0.9 million for the three months ended March 31, 2025 compared with \$2.0 million for the three months ended March 31, 2024. The effective tax rate was 23.1% and 22.5% for the three months ended March 31, 2025 and 2024, respectively.

#### *Interest Expense*

Interest expense decreased slightly to \$0.9 million for the three months ended March 31, 2025 from \$1.0 million for the three months ended March 31, 2024. Interest expense decreased primarily as a result of a decrease in the applicable variable interest. For additional information, see "Liquidity and Capital Resources" in this report.

### **Liquidity and Capital Resources**

Our primary sources of funds are premiums, billing fees, service charges, managing general agency fees and investment income from our insurance company subsidiaries. Our primary uses of funds are the payment of claims and operating expenses. Net cash provided by operating activities for the three months ended March 31, 2025 was \$15.4 million, compared with \$29.2 million for the same period in the prior year. This decrease was primary the result of the new reinsurance contract commencing July 1, 2024.

Net cash used in investing activities for the three months ended March 31, 2025 was \$19.5 million compared to \$44.5 million for the same period in the prior year. This change was primarily the result of a decrease in the amount of securities purchased in the current period.

Our holding company requires cash for general corporate overhead expenses and debt service related to our debentures payable. Following the sale of the Insurance Agency, the holding company's primary source of unrestricted cash to meet its obligations are managing general agency fees, dividends from the insurance companies, and the remaining proceeds to be received through 2026 from the sale of the insurance agency as noted in the following paragraph. As of March 31, 2025, our holding company had adequate unrestricted cash to meet current obligations. We also believe that these funds and the additional anticipated unrestricted cash from the sources noted above will be sufficient to pay our future cash requirements outside of the insurance company subsidiaries.

As a result of the sale of our insurance agency in December 2023, the Company is eligible to receive additional maximum contingent consideration of \$10 million and \$20 million on December 1, 2025 and 2026, respectively, based upon achievement of certain annual production targets. The cash from the contingent consideration payments to the Company would be unrestricted unless required by the insurance companies to maintain \$100 million of capital and surplus as per the purchase agreement.

The holding company has debt service requirements related to the debentures payable. The debentures are interest-only and mature in full in July 2037. Effective July 1, 2023, with the sunset of LIBOR, the debentures now accrue interest at a variable rate equal to an adjusted Three-Month CME term SOFR rate plus 375 basis points, which resets quarterly. The interest rate related to the debentures for the three months ended March 31, 2025 ranged from 8.299% to 8.601%. In April 2025, the interest rate reset to 8.291% through July 2025.

State insurance laws limit the amount of distributions that may be paid from our insurance company subsidiaries. As of March 31, 2025, the dividend limitation was \$16.6 million.

During the three months ended March 31, 2025 the Company repurchased 1.5 million shares of its common stock at a total of \$5.8 million in four separate private transactions.

We have three insurance company subsidiaries that are organized and domiciled under the insurance statutes of Texas, Georgia, and Tennessee. Our insurance company subsidiaries also operate under licenses issued by various state insurance authorities. Such licenses may be of perpetual duration or periodically renewable, provided we continue to meet applicable regulatory requirements.

The National Association of Insurance Commissioners (“NAIC”) Model Act for risk-based capital provides formulas to determine each December 31 on an annual basis the amount of statutory capital and surplus that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. Failure to meet applicable risk-based capital requirements could subject our insurance company subsidiaries to further examination or corrective action imposed by state regulators, including limitations on their writing of additional business, state supervision or even liquidation. As of March 31, 2025, the insurance company subsidiaries remain above the company action levels. There are also statutory guidelines that suggest that on an annual calendar year basis an insurance company should not exceed a ratio of net premiums written to statutory capital and surplus of 3-to-1. For the three months ended March 31, 2025, each insurance company subsidiary was within this guideline.

We believe that existing cash and investment balances, when combined with anticipated cash flows as noted above, will be adequate to meet our expected liquidity needs, for both the holding company and our insurance company subsidiaries, in both the short-term and the foreseeable future.

#### **Item 5. Legal Proceedings**

The Company is named as a defendant in various lawsuits, arising in the ordinary course of business, generally relating to its insurance operations. All legal actions relating to claims made under insurance policies are considered by the Company in establishing its loss and loss adjustment expense reserves. The Company also faces lawsuits from time to time that seek damages beyond policy limits, commonly known as bad faith claims, as well as class action and individual lawsuits that involve issues arising in the course of the Company’s business. The Company continually evaluates potential liabilities and reserves for litigation of these types using the criteria established by FASB ASC 450, *Contingencies* (“FASB ASC 450”). Pursuant to FASB ASC 450, reserves for a loss may only be recognized if the likelihood of occurrence is probable and the amount can be reasonably estimated. If a loss, while not probable, is judged to be reasonably possible, management will disclose, if it can be estimated, a possible range of loss or state that an estimate cannot be made. Management evaluates each legal action and records reserves for losses, as warranted, by establishing a reserve in its consolidated balance sheets in loss and loss adjustment expense reserves for bad faith claims and in other liabilities for other lawsuits. Amounts incurred are recorded in the Company’s consolidated statements of comprehensive income in losses and loss adjustment expenses for bad faith claims and in insurance operating expenses for other lawsuits unless otherwise disclosed.

#### **Item 6. Defaults Upon Senior Securities**

None.

#### **Item 7. Other Information**

None.

#### **Item 8. Exhibits**

3.1 Interim Consolidated Financial Statements

## Item 9. Certifications

I, Kenneth D. Russell, Chief Executive Officer, certify that:

1. I have reviewed this quarterly disclosure statement of First Acceptance Corporation;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information includes or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 6, 2025

/s/ Kenneth D. Russell

Kenneth D. Russell

Chief Executive Officer

I, Brian Dickman, Chief Financial Officer, certify that:

1. I have reviewed this quarterly disclosure statement of First Acceptance Corporation;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information includes or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 6, 2025

/s/ Brian Dickman

Brian Dickman

Chief Financial Officer

**Exhibit 3.1 Interim Consolidated Financial Statements**

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share data)

	March 31, 2025 (Unaudited)	December 31, 2024
<b>ASSETS</b>		
Investments in fixed maturities, available-for-sale at fair value (amortized cost of \$321,119 and \$304,547, respectively)	\$ 317,417	\$ 298,064
Investments in equity securities at fair value (cost of \$17,228 and \$14,114, respectively)	18,802	16,115
Cash, cash equivalents, and restricted cash equivalents	75,889	85,917
Premiums, fees, and commissions receivable, net of allowance of \$324 and \$431, respectively	187,077	155,458
Consideration receivable from the sale of insurance agency, at fair value	27,227	26,734
Deferred tax asset, net	2,878	2,767
Other investments	7,871	7,722
Other assets	17,356	22,656
Operating lease right-of-use assets	4,221	4,381
Reinsurance recoverables	37,011	28,572
Prepaid reinsurance premiums	33,442	28,552
Property and equipment, net	3,284	3,450
<b>TOTAL ASSETS</b>	<b>\$ 732,475</b>	<b>\$ 680,388</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Loss and loss adjustment expense reserves	\$ 256,999	\$ 240,447
Unearned premiums and fees	193,912	168,129
Debentures payable	40,678	40,666
Operating lease liabilities	4,566	4,734
Income taxes payable	4,721	3,152
Deferred ceding commissions, net	1,699	2,207
Amounts due to reinsurers	32,719	26,710
Other liabilities	28,172	24,782
<b>Total liabilities</b>	<b>563,466</b>	<b>510,827</b>
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000 shares authorized	—	—
Common stock, \$.01 par value, 75,000 shares authorized; 36,771 and 38,191 issued and outstanding, respectively	367	381
Additional paid-in capital	451,163	456,804
Accumulated other comprehensive loss, net of tax of \$(1,959) and \$(2,543), respectively	(1,744)	(3,941)
Accumulated deficit	(280,777)	(283,683)
<b>Total stockholders' equity</b>	<b>169,009</b>	<b>169,561</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 732,475</b>	<b>\$ 680,388</b>

See notes to consolidated financial statements.

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)  
(in thousands, except per share data)

	Three Months Ended March 31,	
	2025	2024
Revenues:		
Premiums earned	\$ 111,539	\$ 130,550
Billing fees, service charges and managing general agency fees	9,105	9,857
Investment income	4,632	4,319
Net (losses) gains on investments	(189)	537
	<u>125,087</u>	<u>145,263</u>
Costs and expenses:		
Losses and loss adjustment expenses	88,029	91,499
Insurance operating expenses	31,595	42,974
Other operating expenses	262	310
Stock-based compensation	241	222
Depreciation and amortization	303	334
Interest expense	877	986
	<u>121,307</u>	<u>136,325</u>
Income before income taxes	3,780	8,938
Provision for income taxes	874	2,010
Net income	<u>\$ 2,906</u>	<u>\$ 6,928</u>
Net income per share:		
Basic	<u>\$ 0.08</u>	<u>\$ 0.18</u>
Diluted	<u>\$ 0.08</u>	<u>\$ 0.18</u>
Number of shares used to calculate net income per share:		
Basic	<u>37,862</u>	<u>38,103</u>
Diluted	<u>38,628</u>	<u>38,681</u>
Reconciliation of net income to other comprehensive income:		
Net income	\$ 2,906	\$ 6,928
Net unrealized change in investments, net of tax expense (benefit) of \$584 and \$(244), respectively	2,197	(919)
Comprehensive income	<u>\$ 5,103</u>	<u>\$ 6,009</u>
Detail of net (losses) gains on investments:		
Net realized gains on sales and redemptions	\$ 238	\$ 23
Net unrealized (losses) gains on equity securities, includes \$(239) of reclassification for realized gains in 2025	(427)	514
Net (losses) gains on investments	<u>\$ (189)</u>	<u>\$ 537</u>

See notes to consolidated financial statements.

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Unaudited)

	<b>Common Stock</b>		<b>Additional paid-in capital</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Accumulated deficit</b>	<b>Total stockholders' equity</b>
	<b>Shares</b>	<b>Amount</b>				
Balances at December 31, 2023	38,265	\$ 382	\$ 456,309	\$ (4,869)	\$ (309,974)	\$ 141,848
Net income	—	—	—	—	6,928	6,928
Net unrealized change on investments (net of tax benefit of \$244)	—	—	—	(919)	—	(919)
Stock-based compensation	—	—	222	—	—	222
Vested restricted stock units, net of repurchases	106	1	—	—	—	1
Retirement of treasury stock	(285)	(3)	(687)	—	—	(690)
Balances at March 31, 2024	<u>38,086</u>	<u>\$ 380</u>	<u>\$ 455,844</u>	<u>\$ (5,788)</u>	<u>\$ (303,046)</u>	<u>\$ 147,390</u>

	<b>Common Stock</b>		<b>Additional paid-in capital</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Accumulated deficit</b>	<b>Total stockholders' equity</b>
	<b>Shares</b>	<b>Amount</b>				
Balances at December 31, 2024	38,191	\$ 381	\$ 456,804	\$ (3,941)	\$ (283,683)	\$ 169,561
Net income	—	—	—	—	2,906	2,906
Net unrealized change on investments (net of tax expense of \$584)	—	—	—	2,197	—	2,197
Stock-based compensation	—	—	241	—	—	241
Vested restricted stock units, net of repurchases	96	1	(93)	—	—	(92)
Retirement of treasury stock	(1,516)	(15)	(5,789)	—	—	(5,804)
Balances at March 31, 2025	<u>36,771</u>	<u>\$ 367</u>	<u>\$ 451,163</u>	<u>\$ (1,744)</u>	<u>\$ (280,777)</u>	<u>\$ 169,009</u>

See notes to consolidated financial statements.

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(in thousands)

	Three Months Ended March 31,	
	2025	2024
Cash flows from operating activities:		
Net income	\$ 2,906	\$ 6,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized gains on equity securities	427	(514)
Depreciation and amortization	303	334
Accretion of present value discount of sales consideration receivable	(493)	(903)
Stock-based compensation	241	222
Deferred income taxes	(695)	(2,803)
Investment income from other investments	(108)	(115)
Realized (gains) losses on sales and redemptions of investments	(238)	(23)
Other	(235)	(83)
Change in:		
Premiums, fees, and commission receivable	(31,512)	(33,848)
Loss and loss adjustment expense reserves	16,552	21,360
Unearned premiums and fees	25,783	37,622
Reinsurance recoverables	(8,439)	—
Prepaid insurance premiums	(4,890)	—
Other assets	5,300	1,985
Income taxes payable	1,569	4,050
Deferred ceding commissions, net of deferred acquisition costs	(508)	(738)
Amounts due to reinsurers	6,009	—
Other liabilities	3,390	(3,655)
Other	4	(582)
Net cash provided by operating activities	<u>15,366</u>	<u>29,237</u>
Cash flows from investing activities:		
Purchases of investments	(27,920)	(54,566)
Maturities and redemptions of fixed maturities	7,540	9,865
Sales of investments	1,060	232
Purchases of other investments	(91)	—
Distributions from other investments	50	144
Capital expenditures	(137)	(69)
Receivable/payable for securities	—	(3,328)
Collections on consideration receivable from sale of insurance agency	—	3,250
Net cash used in investing activities	<u>(19,498)</u>	<u>(44,472)</u>
Cash flows from financing activities:		
Purchase of treasury stock, at cost	(5,804)	(687)
Taxes remitted in relation to employee restricted stock units exercised	(92)	—
Net cash used in financing activities	<u>(5,896)</u>	<u>(687)</u>
Net change in cash, cash equivalents, and restricted cash	(10,028)	(15,922)
Cash, cash equivalents, and restricted cash, beginning of period	85,917	109,780
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 75,889</u>	<u>\$ 93,858</u>

See notes to consolidated financial statements.

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1. General**

The consolidated financial statements of First Acceptance Corporation (the “Company”) included herein have been prepared without audit. Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been omitted. In the opinion of management, the consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the interim periods.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in its Annual Report for the year ended December 31, 2024 filed by the Company with OTCQX.

For the three months ended March 31, 2025, two single independent agent groups produced 48% and 36% of premiums earned, respectively.

**2. Investments**

*Investments, Available-for-Sale*

The following tables summarize the Company’s investment in fixed securities (in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>March 31, 2025</b>				
Fixed maturities, available-for-sale:				
U.S. government and agencies	\$ 33,557	\$ 184	\$ (5)	\$ 33,736
Political subdivisions	2,994	8	(39)	2,963
Revenue and assessment	20,259	75	(99)	20,505
Corporate bonds	122,381	1,194	(450)	123,125
Asset backed securities	62,000	397	(56)	62,341
Collateralized mortgage obligations:				
Agency backed	78,107	478	(5,913)	72,672
Non-agency backed – residential	704	528	(1)	1,231
Non-agency backed – commercial	847	—	(3)	844
Total fixed maturities, available-for-sale	\$ 321,119	\$ 2,864	\$ (6,566)	\$ 317,417

The following tables set forth the amount of gross unrealized losses by current severity (as compared to amortized cost) and the length of time that individual securities have been in a continuous unrealized loss position (in thousands).

Length of Gross Unrealized Losses At March 31, 2025:	Fair Value of Securities with		Severity of Gross Unrealized Losses		
	Gross Unrealized Losses	Gross Unrealized Losses	Less than 5%	5% to 10%	Greater than 10%
Less than or equal to:					
Three months	\$ 20,750	\$ (78)	\$ (78)	\$ —	\$ —
Six months	12,740	(70)	(70)	—	—
Nine months	1,750	(38)	(38)	—	—
Twelve months	—	—	—	—	—
Greater than twelve months	66,604	(6,380)	(613)	(424)	(5,343)
Total	\$ 101,844	\$ (6,566)	\$ (799)	\$ (424)	\$ (5,343)

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The fair value and gross unrealized losses of investments in fixed maturities at March 31, 2025, by the length of time that individual securities have been in a continuous unrealized loss position follows (in thousands).

	Less than 12 months		12 months or longer		Total Gross Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
<b>March 31, 2025</b>					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ —	\$ —	\$ 510	\$ (5)	\$ (5)
Political subdivisions	440	(4)	2,000	(35)	(39)
Revenue and assessment	5,577	(18)	6,188	(81)	(99)
Corporate bonds	5,236	(2)	24,897	(448)	(450)
Asset backed securities	8,488	(26)	2,381	(30)	(56)
Collateralized mortgage obligations:					
Agency backed	14,613	(132)	30,628	(5,781)	(5,913)
Non-agency backed – residential	55	(1)	—	—	(1)
Non-agency backed – commercial	830	(3)	—	—	(3)
<b>Total fixed maturities, available-for-sale</b>	<b>\$ 35,239</b>	<b>\$ (186)</b>	<b>\$ 66,604</b>	<b>\$ (6,380)</b>	<b>\$ (6,566)</b>

For the three months ended March 31, 2025 the Company had 45 fixed maturities with gross unrealized losses that have been in a gross unrealized loss position for less than or equal to 12 months and 53 fixed maturities with gross unrealized losses that have been in a gross unrealized loss position for greater than 12 months.

For the three months ended March 31, 2025 and 2024, the Company did not recognize any other-than-temporary impairment ("OTTI") charges on its fixed maturities, available for sale in net income. Unrealized gains and losses on equity securities (preferred stocks and mutual funds) are recognized as a component of net income. The Company believes that the securities having unrealized losses at March 31, 2025 were not other-than-temporarily impaired and are attributable to the increase in interest rates since the time when they were originally purchased. The Company also does not intend to sell any of these securities, and it is more likely than not that the Company will not be required to sell any of these securities before the recovery of their amortized cost basis.

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**3. Losses and Loss Adjustment Expenses Incurred and Paid**

Information regarding the reserve for unpaid losses and loss adjustment expenses (“LAE”) is as follows (in thousands).

	March 31,	
	2025	2024
Liability for unpaid losses and LAE at beginning of period, gross	\$ 240,447	\$ 165,346
Reinsurance balances receivable	(23,347)	(2)
Liability for unpaid losses and LAE at beginning of period, net	217,100	165,344
Add: Provision for losses and LAE:		
Current period	87,816	87,626
Prior periods	213	3,873
Net losses and LAE incurred	88,029	91,499
Less: Losses and LAE paid:		
Current period	17,138	15,805
Prior periods	64,097	54,332
Net losses and LAE paid	81,235	70,137
Liability for unpaid losses and LAE at end of period, net	223,894	186,706
Reinsurance balances receivable	33,105	—
Liability for unpaid losses and LAE at end of period, gross	<u>\$ 256,999</u>	<u>\$ 186,706</u>

There was no significant development for the three months ended March 31, 2025.

The unfavorable development for the three months ended March 31, 2024 was primarily attributable to higher than expected loss severity on bodily injury losses in the third and fourth quarters of the 2023 accident year.

**4. Income Taxes**

The provision for income taxes consisted of the following (in thousands).

	Three Months Ended March 31,	
	2025	2024
Federal:		
Current	\$ 1,482	\$ 4,310
Deferred	(694)	(2,485)
	788	1,825
State:		
Current	87	503
Deferred	(1)	(318)
	86	185
	<u>\$ 874</u>	<u>\$ 2,010</u>

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

The provision for income taxes differs from the amounts computed by applying the statutory federal corporate tax rate of 21% to income before income taxes as a result of the following (in thousands).

	Three Months Ended March 31,			
	2025		2024	
U.S. Federal Statutory Tax Rate	\$	794 21.0%	\$	1,877 21.0%
Tax effect of:				
Tax-exempt investment income		(10) -0.3%		(10) -0.1%
Stock-based compensation benefits realized		(25) -0.7%		(1) 0.0%
State income taxes, net of federal income tax benefit and state valuation allowance		69 1.8%		79 0.9%
Tax credits		— 0.0%		(60) -0.7%
Other		46 1.2%		125 1.4%
	\$	874 23.1%	\$	2,010 22.5%

ASC Topic 740, *Income Taxes*, establishes procedures to measure deferred tax assets and liabilities and assess whether a valuation allowance relative to existing deferred tax assets is necessary. Management assesses the likelihood of realization of the Company's deferred tax assets and the need for a valuation allowance concerning those assets based on the weight of available positive and negative evidence. As of March 31, 2025 and December 31, 2024, management determined that a valuation allowance of \$2.8 million and \$2.1 million, respectively, was necessary relative to certain state tax net operating loss carryforwards and OTTI which are not expected to be realized. Management also determined at March 31, 2025 and December 31, 2024, that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining deferred tax assets not covered by this valuation allowance.

The deferred tax asset ("DTA") valuation allowance may be adjusted in future periods if management determines that it is more likely than not that some portion or all of the DTA will not be realized, or previously recognized valuation allowance should be released. In the event the DTA valuation allowance is adjusted, the Company would record an income tax expense for the adjustment.

For the three months ended March 31, 2025, no state or federal taxes were paid. For the three months ended March 31, 2024, the Company paid \$0.8 million in state income taxes.

## 5. Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and lease liabilities on our consolidated balance sheet. The Company does not have any finance leases.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Lease terms may include options to extend the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has operating leases, which include corporate offices and certain equipment. The leases have remaining lease terms of three years to seven years. Both operating lease costs and cash flows for the three months March 31, 2025 were \$0.2 million. Both operating lease cost and cash flows for the three months ended March 31, 2024 were \$0.9 million.

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

Supplemental balance sheet information related to leases was as follows:

	<b>March 31,</b>	
	<b>2025</b>	<b>2024</b>
Operating lease right-of-use assets	\$ 4,221	\$ 4,845
Operating lease liabilities	4,566	5,219
Weighted average remaining lease term	6.14 years	7.06 years
Weighted average discount rate	6.50%	6.50%

Maturities of operating lease liabilities were as follows:

<b>For the Year Ended December 31,</b>	<b>Amount</b>
2025 (excluding the three months ended March 31, 2025)	\$ 731
2026	984
2027	995
2028	780
2029	640
Thereafter	1,387
Total lease payments	\$ 5,517
Less imputed interest	(951)
Total	<u>\$ 4,566</u>

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**6. Premiums and Reinsurance**

Net premiums written and earned are summarized as follows (in thousands).

	For the Three Months Ended March 31, 2025	
	Written	Earned
Direct	\$ 156,387	\$ 131,681
Assumed	4,003	3,154
Ceded	(28,186)	(23,296)
Net	<u>\$ 132,204</u>	<u>\$ 111,539</u>

Effective July 1, 2024, the Company utilizes quota-share reinsurance with an unaffiliated reinsurer to reinsure a portion of the business produced by its second largest independent agent which utilizes a technology-driven method of distribution. The reinsurance covers 50% of both the business in force as of July 1, 2024 and new and renewal business after this date through June 30, 2025 up to a combined total of \$137.5 million of ceded premiums written. Although the reinsurance agreement contractually obligates the reinsurer to reimburse the Company for their share of losses, it does not discharge the primary liability of the Company, which remains contingently liable in the event the reinsurer is unable to meet their contractual obligations.

Assumed business represents private-passenger non-standard automobile insurance premiums in Texas written through a program with a county mutual insurance company and assumed by the Company through 100% quota-share reinsurance.

At March 31, 2025, the Company had unsecured aggregate reinsurance receivables of \$37.0 million. These receivables were all from a single reinsurer that is rated A++ (Superior) by AM Best.

During the three months ended March 31, 2025, ceded premiums earned was \$23.3 million and reinsurance recovered on losses and loss adjustment expenses ("LAE") was \$20.0 million.

**7. Related Parties**

In March 2025, the Company repurchased 878,240 shares of the Company's common stock from a retiring member of its Board of Directors for total consideration of \$3.6 million.

**8. Recent Accounting Pronouncements Adopted**

As of January 1, 2025, the Company adopted ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which provides for expanded disclosures primarily related to income taxes paid and the rate reconciliation. As a result, the Company has adopted the disclosure requirements of this pronouncement in Note 4 – Income Taxes to the consolidated financial statements.